Certified Accountants
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Aldar Audit Bureau
Abdullah AlBasri & Co.

**ALMARAI COMPANY**
**A SAUDI JOINT STOCK COMPANY**
**RIYADH - SAUDI ARABIA**

# THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT FOR THE SIX PERIODS ENDED 30 JUNE 2006

**ALMARAI COMPANY**
**A SAUDI JOINT STOCK COMPANY**
**RIYADH – SAUDI ARABIA**

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# INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of
Almarai Company
A Saudi Joint Stock Company
Riyadh - Saudi Arabia

We have reviewed the accompanying interim consolidated balance sheet of Almarai Company a Saudi Joint Stock Company (the "Company") as of 30 June 2006, the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the period ended 30 June 2006, including the related notes. These interim consolidated financial statements are the responsibility of the company's management.

We conducted our review in accordance with the standards established by the Saudi Organisation for Certified Public Accountants. A limited review of interim consolidated financial statements consists principally of applying analytical procedures to financial data and making inquiries of persons responsible in the Company for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the interim consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting principles.


Abdullah M. Al-Basri
Certified Accountant
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Aldar Audit Bureau
Abdullah M. Al-Basri & Co.

Riyadh, 14 Jumada II 1427 A.H.
Corresponding to 10 July 2006 A.D.

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**ALMARAI COMPANY**
**A SAUDI JOINT STOCK COMPANY**
**RIYADH - SAUDI ARABIA**

## INTERIM CONSOLIDATED BALANCE SHEET
## AS AT 30 JUNE 2006 (UNAUDITED)

| | Notes | YTD June 2006 SAR '000 | YTD June 2005 SAR '000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and Bank Balances | | 96,269 | 78,394 |
| Receivables and Prepayments | | 256,188 | 213,187 |
| Inventories | | 399,691 | 261,138 |
| **Total Current Assets** | | **752,148** | **552,719** |
| **Current Liabilities** | | | |
| Payables and Accruals | | 414,161 | 327,905 |
| Short Term Loans | 4 | 147,261 | 19,017 |
| **Total Current Liabilities** | | **561,422** | **346,922** |
| **NET CURRENT ASSETS** | | **190,726** | **205,797** |
| **Non Current Assets** | | | |
| Intangible Assets - Goodwill | | - | 7,081 |
| Fixed Assets | | 2,670,255 | 2,142,079 |
| **Total Non Current Assets** | | **2,670,255** | **2,149,160** |
| **Non Current Liabilities** | | | |
| Long Term Loans | 4 | 1,147,604 | 1,077,300 |
| Employees' Termination Benefits | | 72,239 | 56,704 |
| **Total Non Current Liabilities** | | **1,219,843** | **1,134,004** |
| **NET ASSETS** | | **1,641,138** | **1,220,953** |
| **SHAREHOLDER'S EQUITY** | | | |
| Share Capital | | 1,000,000 | 750,000 |
| Statutory Reserve | | 212,470 | 173,860 |
| Retained Earnings | | 428,668 | 297,093 |
| **TOTAL SHAREHOLDER'S EQUITY** | | **1,641,138** | **1,220,953** |

“THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT”

**ALMARAI COMPANY**
**A SAUDI JOINT STOCK COMPANY**
**RIYADH - SAUDI ARABIA**

## INTERIM CONSOLIDATED STATEMENT OF INCOME
## FOR THE SIX PERIODS ENDED 30 JUNE 2006 (UNAUDITED)

| | Notes | April-June 2006 | April-June 2005 | YTD June 2006 | YTD June 2005 |
|---|---|---|---|---|---|
| | | SAR '000 | SAR '000 | SAR '000 | SAR '000 |
| Sales | **5** | 700,655 | 522,178 | 1,322,120 | 994,769 |
| Cost of Sales | | (428,039) | (310,787) | (822,809) | (599,761) |
| **Gross Profit** | | **272,616** | **211,391** | **499,311** | **395,008** |
| Selling & Distribution Expenses | | (99,813) | (76,580) | (192,762) | (148,056) |
| General & Administration Expenses | | (34,188) | (22,544) | (60,990) | (46,353) |
| **Net Income before Bank Charges & Zakat** | | **138,615** | **112,267** | **245,559** | **200,599** |
| Bank Charges | | (13,450) | (9,395) | (26,277) | (17,654) |
| **Net Income before Zakat** | | **125,165** | **102,872** | **219,282** | **182,945** |
| Zakat | | (3,375) | (2,539) | (6,903) | (4,649) |
| **Net Income** | | **121,790** | **100,333** | **212,379** | **178,296** |
| **Earnings per Share (SAR)*** | **6** | **1.22** | **1.00** | **2.12** | **1.78** |

The operating results reported above in this interim consolidated statement of income present a true picture of the past performance of the Company, but are not necessarily indicative of future results.

* Earnings per Share is calculated on the total number of issued shares is equal to the shares issued at 30 June 2006 (i.e.100 million shares).

“THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT”

**ALMARAI COMPANY**
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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE SIX PERIODS ENDED 30 JUNE 2006 (UNAUDITED)**

| | YTD June 2006 | YTD June 2005 |
|---|---|---|
| | SAR '000 | SAR '000 |
| **Cash Flows from Operating Activities** | | |
| **Net Income** | **212,379** | **178,296** |
| Depreciation & Amortisation | 89,897 | 56,997 |
| Bank Charges | 26,277 | 17,654 |
| Change in Employees' Termination Benefits | 6,038 | 3,284 |
| **Operating Cash Flows Before Changes in Working Capital** | **334,591** | **256,231** |
| Changes in: | | |
| Receivables & Prepayments | (38,686) | (26,593) |
| Inventories | (78,710) | (17,899) |
| Payables & Accruals | 43,770 | 41,434 |
| **Cash Flows used by Changes in Working Capital** | **(73,626)** | **(3,058)** |
| **Cash Flows from Operating Activities** | **260,965** | **253,173** |
| **Cash Flows used in Investing Activities** | | |
| Additions to Fixed Assets | (392,122) | (316,792) |
| Proceeds from the Sale of Fixed Assets | 28,228 | 19,820 |
| **Cash Flows used in Investing Activities** | **(363,894)** | **(296,972)** |
| **Cash Flows from Financing Activities** | | |
| Increase in Loans | 183,800 | 328,893 |
| Dividends Paid during the Period | - | (250,000) |
| Bank Charges | (26,277) | (17,654) |
| **Cash Flows from Financing Activities** | **157,523** | **61,239** |
| **Increase in Cash and Bank Balances** | **54,594** | **17,440** |
| **Cash and Bank Balances at 1 January** | **41,675** | **60,954** |
| **Cash and Bank Balances at End of Period** | **96,269** | **78,394** |

“THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT”

**ALMARAI COMPANY**
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**RIYADH - SAUDI ARABIA**

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE SIX PERIODS ENDED 30 JUNE 2006 (UNAUDITED)**

| | YTD June 2006 SAR '000 | YTD June 2005 SAR '000 |
|---|---|---|
| **Share Capital** | | |
| Balance at 1 January | 1,000,000 | 750,000 |
| **Balance at End of Period** | **1,000,000** | **750,000** |
| **Statutory Reserve** | | |
| Balance at 1 January | 212,470 | 173,860 |
| **Balance at End of Period** | **212,470** | **173,860** |
| **Retained Earnings** | | |
| Balance at 1 January | 216,289 | 368,797 |
| Net Income | 212,379 | 178,296 |
| Dividends Paid | - | (250,000) |
| **Balance at End of Period** | **428,668** | **297,093** |

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

## 1. THE COMPANY AND ITS BUSINESS DESCRIPTION

Almarai Company (the "Company") is a Saudi Joint Stock Company, which was converted on 2 Rajab 1426 A.H. (8 August 2005). The Company initially commenced trading on 19 Dl' Hijjah 1411 A.H. (1 July 1991) and still operates under Commercial Registration No. 1010084223.

The Company is a major integrated consumer food company in the Middle East with leadership positions in Saudi Arabia and the neighbouring Gulf Cooperative Council (GCC) countries. All raw milk production and related processing along with food manufacturing activities are undertaken in Saudi Arabia. Final consumer products are distributed from the manufacturing facilities in Saudi Arabia to local distribution centres by the Company's long haul distribution fleet.

The distribution centres in the GCC countries (except for Bahrain and Oman) are managed by the Company and operate within Distributor Agency Agreements as follows:

| | |
|---|---|
| Kuwait | - Al Kharafi Brothers Dairy Products Company Limited |
| Qatar | - Khalid for Foodstuff and Trading Company |
| United Arab Emirates | - Bustan Al Khaleej Establishment |

The Company operates in Bahrain and Oman through subsidiaries, Almarai Company Bahrain W.L.L. and Arabian Planets for Trade and Marketing LLC respectively.

The Company's Head Office is located at the following address:

Exit 7, North Circle Road
Al Izdihar District
P.O. Box 8524
Riyadh 11492
Kingdom of Saudi Arabia

## 2. BASIS OF ACCOUNTING, PREPARATION, CONSOLIDATION & PRESENTATION OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(a) The interim consolidated financial statements have been prepared on the accrual basis under the historical cost convention and in compliance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA).
(b) The statutory records are maintained in Arabic.
(c) When necessary, prior period comparatives have been regrouped on a basis consistent with current period classification.
(d) The interim consolidated financial statements reflect all business operations undertaken on behalf of the Company and its subsidiaries and the assets and liabilities beneficially held by the Company.
(e) The figures in these interim consolidated financial statements are rounded to the nearest thousand.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### A. Use of Estimates

The preparation of interim consolidated financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the balance sheet date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### B. Revenue Recognition

Products are sold principally on a sale or return basis. Revenue is recognised on delivery of products to customers by the company or its distributors, at which time risk and title passes, subject to the physical return of unsold products. Adjustment is made in respect of known actual returns.

### C. Cash and Bank Balances

Time deposits purchased with original maturities of less than three months are included in Cash at Bank.

### D. Accounts Receivable

Accounts receivable are carried at the original invoiced amount less any provision made for doubtful debts. Provision is made for all debts for which the collection is considered doubtful.

### E. Inventory Valuation

Inventory is stated at the lower of cost and net realisable value. In general, cost is determined on a weighted average basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure based on the normal level of activity. Net realisable value comprises estimated price less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

### F. Goodwill

Goodwill represents the difference between the cost of businesses acquired and the aggregate of the fair values of their identifiable net assets at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

### G. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. There is no open market for dairy livestock in the GCC against which to measure fair value. Accordingly, dairy livestock are treated as fixed assets and included in the accounts at their cost of purchase or at the cost of rearing to the point of first calving, less accumulated depreciation. The cost of dairy youngstock is determined by the cost of rearing to their respective age.

Cows in the dairy herd are depreciated to their estimated residual value, at rates between 10% - 25%, based on their expected continuing useful life. Other fixed assets are depreciated on a straight line basis at the following annual rates:

| | |
|---|---|
| Buildings | 3% - 10% |
| Plant, Machinery & Equipment | 5% - 33% |
| Motor Vehicles | 15% - 25% |
| Land is not depreciated | |

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are expensed in the consolidated Statement of Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years/periods. A reversal of an impairment loss is recognized as income immediately in the consolidated Statement of Income.

## H. Conversion of Foreign Currency Transactions

During the financial period foreign currency transactions are converted and booked in Saudi Riyals at standard exchange rates which are periodically set to reflect average market rates or forward rates if the transactions were so covered. At the balance sheet date, assets and liabilities denominated in foreign currencies are converted into Saudi Riyals at the exchange rates ruling on such date or at the forward purchase rates if so covered. Any resulting exchange variances are charged or credited to the interim consolidated statement of income as appropriate. Gains and losses on derivative financial instruments used to hedge foreign currency exposures are recognised in the interim consolidated statement of income when the underlying transaction occurs.

## I. Employees' Termination Benefits

Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labour and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, in compliance with the conditions stated in the laws of the Kingdom of Saudi Arabia.

## J. Selling, Distribution, General & Administration Expenses

Selling, Distribution, General & Administration Expenses include direct and indirect costs not specifically part of Cost of Sales as required under generally accepted accounting principles. Allocations between Cost of Sales and Selling, Distribution, General & Administration Expenses, when required, are made on a consistent basis. The Company charges payments in respect of long term agreements with customers and distributors to Selling and Distribution Expenses.

## K. Management Fees

The Company credits fees charged in respect of the management of Arable Farms to General & Administration Expenses.

**L. Zakat**

Zakat is provided for in the interim consolidated Balance Sheet on the basis of an estimated Zakat assessment carried out in accordance with Saudi Department of Zakat and Income Tax (DZIT) regulations. Adjustments arising from final Zakat assessments are recorded in the period in which such assessments are made.

**M. Operating Leases**

Rentals in respect of operating leases are charged to the interim consolidated Statement of Income over the terms of the leases.

## 4. LOANS

| | | YTD June 2006 | YTD June 2005 |
|---|---|---|---|
| | | SAR '000 | SAR '000 |
| (i) | Saudi Industrial Development Fund | 388,780 | 254,960 |
| (ii) | Saudi Arabian Agricultural Bank | 19,854 | 20,308 |
| (iii) | Islamic Banking Facilities (Murabaha) | 886,231 | 400,000 |
| (iv) | Commercial Banks | - | 421,049 |
| | Total | 1,294,865 | 1,096,317 |

## 5. SEGMENTAL REPORTING

Analysis of Sales is given by Product Group as shown below. The disclosure of segmental information by geographical area would, in opinion of the Board of Directors, be prejudicial to the interest of the Company and accordingly is not disclosed.

| | | |
|---|---|---|
| By Product Group | | |
| Fresh Dairy | 756,940 | 608,029 |
| Long Life Dairy | 136,949 | 103,916 |
| Fruit Juice | 89,325 | 65,013 |
| Cheese & Butter | 328,515 | 209,032 |
| Non-Dairy Foods | 7,250 | 5,184 |
| Other | 3,141 | 3,595 |
| | 1,322,120 | 994,769 |

## 6. EARNINGS PER SHARE

As per the direction of the Ministry Board, the Saudi Arabian Capital Market Authority has directed the par value of shares to be restated at SAR 10 per share instead of SAR 50 per share. This change in the par value of shares took effect from 15 April 2006, and therefore the composition of the share capital of the Company was changed from 20 million fully paid and issued shares of SAR 50 each to 100 million fully paid and issued shares of SAR 10 each.